The money makers

Craig McGuire - 2 Jan 2006 00:00

Members of an elite crop of financial PR pros are becoming specialists.

With billions of dollars pouring into hedge funds and private equity firms, a new breed of financial communicator has emerged; one adept at providing tactical support to this slightly shadowy side of the financial services industry. It takes a special kind of PR pro to work within these areas, complete with their unique sets of rules, regulations, and protocols.

Simply put, private equity firms invest in companies that have not gone public and are generally illiquid and thought of as a long-term investment. And a hedge fund, exempt from many of the rules and regulations governing mutual funds, is an investment fund allowed to use aggressive strategies that are unavailable to mutual funds, including selling short, leverage, program trading, swaps, arbitrage, and derivatives.

To understand what it takes to survive in this complex, intense environment, these top players take us through the ins and outs of their jobs.

Email this article

Print this page

Subscribe to PRWeek

Newsletters

Get weekly news alerts on the consumer, healthcare, or technology industry. Newsletters include news round-ups, features, and jobs tailored to the particular sector.

The Problem Solver
Andrew Merrill, Global managing director, Edelman

Hedge funds were not exactly designed with communications in mind. They are structured as exclusive pools of high-net worth individuals (minimum $1 million investment), generally not the most ardent seekers of publicity.

And as hedge funds are largely unregulated by US security laws, they do not jump through disclosure hurdles and are not required to provide periodic pricing or valuation information to investors.

They often engage in leveraging and other speculative investment techniques that increase risk dramatically, hazardous practices they would much rather keep quiet.

And they are strictly prohibited by the Security & Exchange Commission from advertising. So where exactly does PR fit into this equation?

For an outside entity, such as a hedge fund, that often needs to exert pressure to effect change inside companies it invests in, communications offers profound tactical uses.

"In very much the same way M&A PR rose to prominence a decade ago, shareholder activism is becoming much more prevalent today," says Andrew Merrill, global managing director at Edelman.

Shareholder activism is serious business, he stresses. To attack and defend, you must have combatants that possess a deep arsenal of business tools.

Before becoming a financial communicator, Merrill was a commercial banker for The Bank of New York for 10 years before landing at Union Bank of Switzerland. He was then laid off when UBS merged with Swiss Bank in the late 1990s.

At his side leading shareholder uprisings, Merrill has a team, most of whom, like himself, vaulted over from the business side, including former equity analysts, financial journalists, and corporate lawyers.

"You are attempting to effect change at a very high level," explains Merrill. "[You're working] at the C-suite level, so you really get involved in the strategic aspect of communications. The stakes are very high."

The Tactician
Fred Bratman, President, Hyde Park Financial Communications

Fred Bratman likes to wrap his mind around a problem.

As president of Hyde Park Financial Communications, Bratman is immersed in the complex world of private equity investing, where acquisition targets are either private or becoming private with a transaction.

Not bound by the disclosure rules and other standard communications needs, Bratman's clients look to him more as a strategic advisor.

For instance, Hyde Park represents a firm that owns a company that recently won a government contract to manufacture a new type of hood for Humvees which provide substantially more protection to US soldiers in Iraq.

The client wanted to publicize winning the contract, earning congressional support, and initiation of an expansion of the company.

"In essence, we had to satisfy two clients when shaping the language," Bratman says, "the portfolio company and the parent that owns that company.

"It's definitely a balancing act," he continues, "because while they both have similar objectives, you are still working with two groups."

In this particular circumstance, the parent company was delighted, as was the CEO.

"But you can see that even in the best of circumstances, any time you work with a group that comprises different people with different agendas, it can be challenging," Bratman admits.

In this realm, as Bratman points out, the nature of communications can be sporadic.

A private equity fund is not aimed at a general investor, as the price of admission can exceed $5 million.

"They are not looking to appear on Bloomberg, that's not their sweet spot," he says.

In other words, they don't need help finding their target market, just advice on what to say to them.

"You play more of the role of the consultant than stereotypical PR person," Bratman says. "You're not always executing a campaign, but more likely providing strategy on how to generate trust and interest."

The Equalizer
Owen Blicksilver, President, Owen Blicksilver Public Relations

Investment banking revenue generated from private equity-related deals is expected to top $11 billion in 2006, a more than 10% rise from a year ago, according to financial data provider Dealogic. By comparison, buyout fees generated in 2001 totaled $3.5 billion.
With so much money pouring in, competition is fierce.

"More private equity clients are looking to PR to differentiate themselves from the pack to win deals and secure funds in a competitive marketplace," says Owen Blicksilver, president of his eponymous agency, which represents 17 private equity firms.

Most of the excitement, he says, comes from dealing with the portfolio companies on behalf of the sponsor.

"Sometimes they run into trouble with creditors, other times a management shakeup needs to be executed," Blicksilver says. "We once represented a company that had unwittingly hired a drug dealer as its CEO."

Media rumors are also a constant concern.

"Often these are false and sometimes, when true, a premature press report can kill a potential transaction," Blicksilver says. "Several years ago, when faxes were modern technology, a client misdialed a digit on a number and faxed a takeover proposal to a newspaper fax machine."

With all the activity, Blicksilver feels the private equity industry will become a "poster child for Darwin.

"The strong firms will flourish. The mediocre ones will [struggle] to secure funds," he says. "Many more will turn to PR to jump-start their investment activities. As interest rates rise, more deals will get into trouble. This will require more crisis skills by PR pros in this sector. It will also mean new business for communications executives with bankruptcy experience."

Blicksilver also predicts deals will continue to grow in size, which means more club deals and more PR firms working together on behalf of clients.

"Private equity has the advantage of being private, and therefore has the benefit of focusing more time on business and less on communications," he says. "It shouldn't lose that edge just because the press demands more of its time. It needs to strike a balance."

The Globetrotter
Tristan Peniston-Bird, Director, Gavin Anderson & Company

In the world of hedge funds and private equity investments, where both seek to buy valuable assets to attain larger investment goals, is it surprising that funds increasingly eye overseas investments?

Not if you ask Tristan Peniston-Bird, director at Gavin Anderson & Company (GA). His firm has managed shareholder activist campaigns for global hedge funds recently in Italy, South Korea, the US, Ireland, and other locations.

"Especially overseas, you typically fight a bloody campaign," he says. "If a hedge fund becomes an activist, it is typically because it feels management isn't realizing value. This puts the hedge fund manager in direct conflict with a company with whom he is an activist."

GA currently represents a hedge fund vested in an Asian company whose management, in the opinion of the hedge fund manager, has consistently not served the interests of shareholders.

"As a result, the hedge fund wants to shake things up," Peniston-Bird says. "We mounted a campaign to solicit other investors to generate support for a management change, refinement of corporate strategy, tactics to add long-term value to shareholders. The management of the target company is very resistant."

Unlike a battle on US soil, this dispute is between a global Anglo-American fund vested in an Asian company willing to play the "evil invader" card.

"It's highly emotive on the part of all participants," Peniston-Bird says. "The local media in this case were anti-foreign, quite nationalistic and parochial in support of the local company, and characterized the hedge fund as a foreign [entity] wanting to exploit a reputable local company for the sake of profit."

Peniston-Bird's team devised a program and created materials to directly lobby investors, lobby management, and reach the press. "Media love writing about hedge fund activists," he says. "It always gets top billing."

With growing concerns over whether hedge funds are sufficiently regulated, jurisdictional disputes on who should regulate and prosecute managers of these funds, more cross-border investing, and billions more set to be invested next year and beyond, it is an exciting time to be active in this sector.

"That's what makes it so cool," adds Peniston-Bird.

Eye on trends

Five trends in financial communications:

1. Shareholder activism. Hedge funds need more support inciting insurrections to effect change inside the companies they are vested in.

2. Reputation management on the rise. With billions being poured into private equity firms, they need to further distinguish themselves from the pack to help facilitate transactions.

3. Business chops. As need swells for PR pros in this area, those with an MBA and a financial services rŽsumŽ will get the plum posts.

4. Regulatory navigation. While largely unregulated, should the suspicious SEC enact new rules, those comfortable cutting through red tape will have something hedge funds need.

5. Rough seas ahead. As interest rates rise, more deals will get into trouble, requiring more crisis PR.

Related Stories

There are currently no related news stories for this item

Related Links

Purchase a Reprint
Send a Comment to the Editor
Subscribe to PRWeek